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1[illegible] SEP 1985

MEMORANDUM FOR: National Intelligence Officer for Economics

FROM : [redacted]
Acting Chief, Economics Division
Office of Global Issues 25X1

SUBJECT : Cut in US Sugar Quota

Attached are talking points and a briefing paper on the potential impact of a 600,000 ton cut in the US sugar quota. The briefing paper has also been sent to Richard Levine at the NSC as a typescript memorandum. If you have questions on the attached, [redacted] would be glad to discuss them with you.

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/s/
[redacted] 25X1

Attachments:
Talking Points
Impact of Proposed Reduction in US Sugar Import Quota for 1985/86
GI M 85-10241, September 1985, [redacted] 25X1

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[redacted]

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[redacted]

Talking Points

- o Potential cut of 600,000 tons in US sugar quota would mean a net earnings loss of $100 million for Latin America and $63 million for the CBI countries.

- o Within the CBI group, the Dominican Republic, Panama, and Guatemala would be hit hardest. The D.R. alone would see its US sugar earnings fall by $30 million -- equivalent to 7 percent of its 1986 debt-service obligation.

- o CBI countries believe that further quota cuts would bankrupt their sugar industries, destablize their national economies, and lead to political unrest. In addition, quota cuts at this time give the wrong signal -- that the Administration is not serious about the Caribbean Basin Economic Recovery Act.

- o Other options are available. Some of these are:

  -- Allocation of the quota cut among countries in better economic shape.

  -- Importation of cane syrup on an ex-quota basis.

  -- Enactment of supplementary or compensation quotas.

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

10 SEP 1985

MEMORANDUM FOR: Richard S. Levine
Deputy Director for International Economic Affairs
National Security Council

FROM : [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

SUBJECT : Cut in Sugar Quota

Attached is a briefing paper on the impact of a potential 600,000 ton cut in the US sugar quota. This responds to your request of 6 September in a telephone conversation [redacted] I hope that you find it useful. If we can be of any further assistance or if you have questions concerning the attached, please call [redacted] 25X1

/s/

[redacted] 25X1

Attachment:
Impact of Proposed Reduction in US Sugar Import Quota for 1985/86
GI M 85-10241, September 1985, [redacted] 25X1

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[redacted] [redacted]

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[redacted] 25X1

SUBJECT: Impact of Proposed Reduction in US Sugar Impact Quota for 1985/86

OGI/ECD/CM [redacted] (10 September 1985) 25X1

Distribution:
1 - Richard Levine, NSC
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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

10 September 1985

Impact of Proposed Reduction in U.S. Sugar Impact Quota for 1985/86

Summary

With approximately two-thirds of the global US quota allocation, the 23 Latin American sugar exporters would be particularly hard hit by the proposed quota cut. The countries most seriously affected would be the Dominican Republic, Panama, Guatemala and Peru. Within Latin America, countries involved in the Administration's Carribbean Basin Initiative would loss some 220,000 tons of their US sugar quota. In addition to intensifying their economic problems, this outcome would accentuate the perception among sugar dependent Carribbean and Central American Countries that the Administration is not committed to the Caribbean Basin Economic Recovery Act (CBERA). While a 600,000 ton sugar import quota cut will inevitably harm the economies of countries that rely on the US market for sugar exports, allocating the cuts in other than an across the board fashion could perhaps be more beneficial to US goals.

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This memorandum was prepared by Commodity Markets Branch, Office of Global Issues. The information contained herein is updated to 10 September 1985. Comments may be directed to , Acting Chief, Economics Division,

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GI M 85-10241

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Impact of Proposed Reduction in U.S. Sugar Import Quota for 1985/86

Background

Sugar exporters face a potential 600,000 short ton or 24 percent reduction in the 1985/86 U.S. sugar import quota. If this quota reduction is approved, the base quota for the 10-month quota year 1 December 1985 to 30 September 1986 would be 1.95 million short tons. This compares with the 14-month quota for 1 October 1984-30 November 1985 of 2.55 million tons, the 12-month quota 1 October 1983-30 September 1984 of 3.05 million tons and pre-quota imports of approximately 4.9 million tons annually for the period 1978-81.[1] The sharp contraction in U.S. import requirements reflects a sharp drop in domestic sugar consumption, caused by a surge in US use of sugar substitutes such as high fructose corn sweeteners (HFCS), combined with stable U.S. sugar production, boosted in part by a price support loan program. 25X1

Impact on Latin America

With approximately two-thirds of the global US quota allocations, the 23 Latin American sugar exporters would be particularly hard hit by the proposed quota cut. We estimate that if the global quota is cut to 1.95 million tons for 1985/86, Latin American exporters' earnings in the U.S. quota market would

1. The 1984/85 quota was originally set for a 12 month period but was extended to 14 months last January when U.S. sugar production estimates were raised and major beverage companies announced increased use of HFCs in soft drinks, thereby reducing domestic sugar requirements. The revision in the quota effectively reduced imports by 425,000 tons for the original quota year--1 October 1984-30 September 1985.

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decline to around $500 million from earnings of $646 million this quota year. (Table 1) [redacted] 25X1

The earnings decline from US quota cuts would be partially offset by sales on the world market where prices have been running around 5 cents per pound and below compared with the 19-20 cents per pound that quota sugar gleans in the US market. Assuming that 387,000 tons of the 600,000 ton quota cut--Latin America's share based on current quota allocations--is sold on the depressed world market for approximately $40 million, the net loss to the region would be approximately $100 million. [redacted] 25X1

This reduction in sugar earnings would come at a particularly inopportune time as commodity prices for other key agricultural and metal exports have slumped badly from levels of the early 1980s--significantly reducing the region's total export earning capacity. Moreover, the fall in sugar export earnings would reduce the ability of these countries to service their substantial debt. Debt service for these countries was estimated at $43 billion. (Table 2) [redacted] 25X1

<u>Impact on Carribbean Basin Initiative (CBI) Countries</u>

Within Latin America, countries involved in the Administration's Caribbean Basin Initiative would lose 220,000 tons of US import quota. We estimate this would depress their export earnings by a net of $63 million. In addition to intensifying their economic problems, this outcome would accentuate the perception among sugar-dependent Caribbean and Central American countries that the Administration is not committed to the Caribbean Basin Economic Recovery Act (CBERA), whose centerpiece is preferential trade access to the US market. Furthermore, CBI countries believe that further quota cuts would lead to bankruptcy of their vital sugar industries, destablilize their national economies, and lead to political unrest. Officials in the region

[redacted] 25X1

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have expressed this concern to our Embassies repeatedly over the last several months and officials of CBI countries as a group expressed their deep concern to the Secretary of State in a letter in July. 25X1

We already have evidence of the deteriorating economic situation in the sugar sectors in the region during the course of 1984/85 and we believe a significant quota cut again in 1985/86 would further stress these troubled economies. Moreover, recent research by this office has revealed that depressed economic conditions, among other key factors, have contributed to the recent expansion of the drug industry in a number of the source countries in Latin America. Also not unnoticed by the region's sugar producers is the Cuban sugar model, whose officials deride the policies of the United States while trumpeting the benefits of its long term, stable, premium-priced volume sugar contracts with COMECOM countries.[2] 25X1

Countries Most Seriously Affected

Assuming that a 600,000 ton quota cut is made, the countries most seriously affected would be the Dominican Republic and Panama. For example, the Dominican Republic, depending on sugar exports for about one-third of its total export earnings, would face a volume drop of roughly 105,000 short tons and an earnings decline from $40 million to only $10.5 million. This shortfall would be equivalent to 7 percent of its projected 1986 debt service obligations. Panama, though less dependent on sugar earnings, is totally dependent on the U.S. market.[3] A cut in the U.S. quota would probably mean additions to already burdensome stocks and cut backs in mill production and

2. While not earning hard currency from COMECOM sugar trade, sugar sales earn the dollar equivalent of 30 to 40 cents per pound in goods and services.

3. Due to the constaints of its port facilitis and harbors which can accomodate only small size vessels, Panama has found it uneconomic to ship sugar to non-U.S. destinations.

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employment. Other countries particularly affected by the proposed quota cut would be Guatemala and Peru. (Table 1 and 2) 25X1

Options To Non-Preferential Quota Cut.

While a 600,000 ton sugar import quota cut will inevitably harm the economies of countries that rely on the US market for sugar exports, allocating the cuts in other than an across the board fashion could perhaps be more beneficial to US goals. Other options include:

- Providing a preference to CBI countries in a fundamental re-allocation of quota shares which would permit a number of CBI countries to retain their recent levels of sugar export earnings.[4] Such a policy decision would provide a positive signal to the region that the United States is committed to its economic and political stability. This policy would buy time until the economic impact of CBERA begins to take effect, including the diversification of agriculture away from sugarcane to non-traditional crops and manufactures with potential markets in the US.
- Consider the proposal, supported by CBI producers and US sugar refiners, for the importation of between 1.0-1.5 million tons of quota-exempt-sugar for the manufacture and sale as high fructose syrup (HFS) or cane syrup. According to some sweetener analysts this product would compete directly only with liquid corn sweeteners and would not

4. The U.S. State Department in the spring of 1982 developed a quota scheme giving preference to CBI countries. The scheme was based on providing CBI countries a quota equivalent to their average performance in the U.S. market between 1979-81--51.6 percent of the global quota. Other countries divide the residual with quota shares based on the relative performance 1979-81. The USDA quota scheme adapted at the time was based on relative performance of countries 1975-81 excluding the high and low year for each country. Under this scheme the fourteen CBI countries were provided with 37.3 percent of the global quota.

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jeopardize domestic sugar producers and their established markets. Benefits of this proposal would include increased US refinery operating capacity and decreased supply in the world market, raising world prices and bringing added sugar revenues to sugar dependent countries.

- Consider a special supplementary or compensatory sugar quota explicitly intended to offset financial losses resulting from low world prices and US quota cuts.[5] Such action would provide a means to correct the apparent inconsistency in U.S. policies that provide economic opportunities to CBI countries through CBERA while taking them away by lowering import quotas. [redacted]

5. The concept of compensation is implicit in CBERA Sec 213, Para d

[redacted]

Table 1

US Sugar Import Quota -- Latin America's Quotas and Estimated Earnings 1983/84-1985/86

Caribbean Basin Initiative (CBI) Countries	Share of US Import Quota (%)	Quota 1983/84 (12 months) (short tons)	Quota Earnings 1983/84 (Mil $)	Quota 1984/85 (14 months) (short tons)	Quota Earnings 1984/85 (Mil $)	Assumed 600,000 Ton Lower Quota: Quota 1985/86 (10 months) (short tons)	Assumed 600,000 Ton Lower Quota: Quota Earnings 1985/86 (Mil $)
Barbados	0.7	21,294	8.092	17,780	6.756	13,650	5.187
Belize	1.1	33,462	12.716	27,940	10.617	21,450	8.151
Costa Rica	1.5 [1]	62,415	23.718	52,302	19.875	39,735	15.099
Dominican Republic	17.6	535,392	203.449	447,040	169.875	343,200	130.416
El Salvador	2.6 [1]	89,163	33.882	74,561	28.333	56,991	21.657
Guatemala	4.8	146,016	55.486	121,920	46.330	93,600	35.568
Guyana	1.2	36,504	13.872	30,480	11.582	23,400	8.892
Haiti	MQ [2]	16,776	6.375	12,500	4.750	12,500	4.750
Honduras	1.0 [1]	59,514	22.615	50,017	19.006	37,674	14.316
Jamaica	1.1	33,462	12.716	27,940	10.617	21,450	8.151
(Nicaragua)	(2.1) [1]	6,000	2.280	6,000	2.280	6,000	2.280
Panama	2.9	88,218	33.523	73,660	27.991	56,550	21.489
Trinidad & Tobago	0.7	21,294	8.092	17,780	6.756	13,650	5.187
St. Christopher-Nevis	MQ [2]	16,776	6.375	12,500	4.750	12,500	4.750
SUBTOTAL	37.3	1,166,286	443.189	972,420	369.520	752,350	285.893
Other Latin America Countries							
Argentina	4.3	130,806	49.706	109,220	41.504	83,850	31.863
Bolivia	0.8	24,336	9.298	20,320	7.722	15,600	5.928
Brazil	14.5	441,090	167.614	368,300	139.954	282,750	107.445
Colombia	2.4	73,008	27.743	60,960	23.165	46,800	17.784
Ecuador	1.1	33,462	12.716	27,940	10.617	21,450	8.151
Mexico	MQ [2]	16,776	6.375	12,500	4.750	12,500	4.750
Paraguay	MQ [2]	16,776	6.375	12,500	4.750	12,500	4.750
Peru	4.1	114,722	43.594	104,140	39.573	79,950	30.381
Uruguay	MQ [2]	16,776	6.375	12,500	4.750	12,500	4.750
SUBTOTAL	27.2	867,752	329.746	728,380	276.784	567,900	215.802
Total Latin America	64.5	2,034,038	772.934	1,700,800	646.304	1,320,250	501.695
Total Others	35.5						
Total World	100.0						
Basic Quota [3]		(3,050,000)		(2,550,000)		(1,950,000)	

1. Nicaragua's 2.1 percent quota allocation has been divided among Honduras (52%); Costa Rica (30%) and El Salvador (18%) after providing Nicaragua with a minimum quota of 6,000 tons.

2. MQ = Minimum Quota.

3. Basic quota does not include specialty sugar quota of 2,000 tons, nor approximately 125,000 tons for "other specified countries" which do not have a specific quota allocation but could ship a minimum quota (MQ) of up to 16,776 tons in 1983/84 and 12,500 tons in 1984/85 and 1985/86.

Table 2

Latin American Debt Service Estimates for Sugar Exporting Countries 1983, 1984
(Millions US $)

Caribbean Basin Initiative (CBI) Countries	1983	1984
Barbados	35	59
Belize	14	17
Costa Rica	395	396
Dominican Republic	393	410
El Salvador	115	130
Guatemala	203	269
Guyana	65	107
Haiti	29	43
Honduras	206	243
Jamaica	345	399
(Nicaragua)	138	215
Panama	807	939
Trinidad & Tobago	310	296
St. Christopher-Nevis	0.7	1.0
SUBTOTAL	3,055	3,524
Other Latin American Countries		
Argentina	4,881	7,083
Bolivia	377	385
Brazil	13,209	15,561
Colombia	1,576	1,855
Ecuador	810	798
Mexico	13,054	11,741
Paraguay	142	208
Peru	1,275	1,592
Uruguay	381	452
SUBTOTAL	35,665	39,675
TOTAL	38,722	43,199